GATEWAY CASINOS

Gateway Casinos Income Fund

annual report 2003

For the 12 months ended December 31, 2003

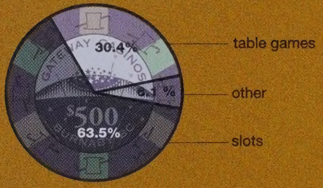
Win /win/n. & v. • n. the amount wagered on gaming activities, less payout to customers (i.e. the revenue earned by casinos)

• v. obtain by result of consistent effort

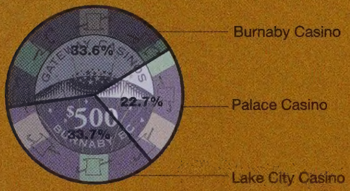
• v. gain the confidence or support of

• v. achieve through clear vision and sound strategy

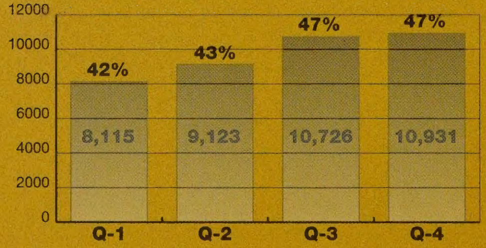
2003 Revenue - % by segment



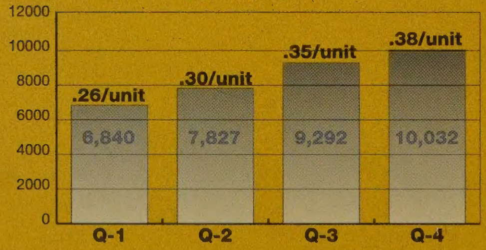
2003 Revenue - % by operation



EBITDA & EBITDA margin (by quarter)



Net Earnings (by quarter)



Financial Highlights 2003

- Achieved strong revenue growth across operations
- Held operating costs steady, growing EBITDA from $8.1 million in Q-1 to $10.9 million in Q-4
- Grew EBITDA margin from 42% in Q-1 to 47% in Q-4
- Grew net earnings from $6.8 million ($0.26/unit) in Q-1 to $10.0 million ($0.38/unit) in Q-4
- Increased annual distribution estimate from $1.20/unit to $1.26/unit, beginning with September 2003 monthly distribution
- Declared special year-end distribution of $0.056 per unit
- Distributed $1.276/unit during 2003, exceeding annual cash distribution target of $1.20/unit

Operating Results Summary

(Expressed in thousands of Canadian dollars, except per unit amounts)

	Year ended December 31, 2003	Period from November 28 to December 31, 2002
Operating Results		
Total revenue	86,515	7,514
Expenses	47,620	4,390
Earnings before interest and amortization	38,895	3,124
Operating margin	*45.0%*	*41.6%*
Net Earnings	33,991	2,622
Basic and fully diluted earnings per unit	*1.29*	*0.10*
Distributable Cash		
Distributable cash generated for the period	37,493	3,112
Distributions declared during the period	33,709	2,906
Distributable cash per unit	1.419	0.118
Distributions declared per unit	1.276	0.110

Contents

Fund Profile

Gateway Casinos Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of British Columbia. The Fund, which was formed on November 28, 2002 to indirectly acquire and hold the securities of the Gateway Casinos Limited Partnership (Gateway), makes monthly distributions to its unitholders based on Gateway's financial performance.

Overview

Headquartered in Burnaby, BC, Gateway is one of the largest casino operators in Western Canada. Under agreements with the British Columbia Lottery Corporation (BCLC) and the Alberta Gaming and Liquor Commission (AGLC), we operate six casinos:

- the Burnaby Casino in Greater Vancouver, BC
- the Palace Casino in Edmonton, Alberta
- the four Lake City Casinos in Kamloops, Kelowna, Penticton and Vernon, BC

In total, we operate 2,039 slot machines and electronic games, and 102 table games. All our casinos are considered "community-based" (versus "destination" casinos) which helps shield us from unforeseen events that can negatively impact tourist-dependent businesses.

In return for providing the facilities, furniture and fixtures, labour, security, marketing and administration at each casino, Gateway receives a fixed percentage of the revenue, or "win", generated there. We also generate revenue by providing on-site services such as food and beverage, parking, foreign exchange and ATMs.

Business Strategy

The growing public acceptance of gaming, together with provincial governments' increasing reliance on alternate revenue sources, like gaming, is driving the rapid expansion of the casino market. According to Statistics Canada, per capita gaming expenditure jumped 244% between 1992 and 2002, from $130 to $447 per adult Canadian. During the same period, total gaming revenue earned by Canada's provincial governments grew by approximately 253%, from $1.7 billion to $6.0 billion.

To attract more patrons, build revenues, and maintain strong working relationships with our provincial government partners, Gateway has differentiated itself through:

- Attractive, conveniently located premises
- Superior customer service
- Exceptional security and surveillance

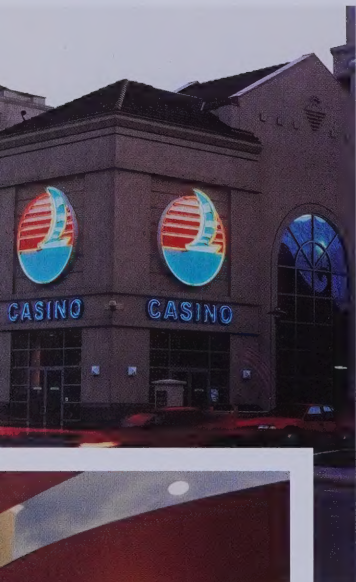
By providing an enjoyable and entertaining gaming experience, Gateway has developed a loyal, and growing, customer base. This has enabled us to command a significant share of the gaming market in all three of our operating regions.

Growth Opportunities

Gateway's future growth will come both internally and through acquisitions. Our business expansion opportunities include:

- Increasing customer visits at our existing operations by enhancing the gaming experience
- Adding games at our current operations, as market demand grows
- Introducing new table games and slot machines, as they are approved by the AGLC and BCLC
- Acquiring additional casino operations
- Expanding into new markets

Winning



(2003 Operational Highlights)

During 2003, 25% of Gateway's BC slot machines were replaced with new, interactive, video-based slots. This has pushed the average win-per-day-per-machine generated by all our BC slot machines up by 25%.

In May 2003, we completed a $675,000 renovation at our Kamloops Lake City Casino. Redecorated in a vibrant Mardi Gras theme, the facility also gained 25 new slot machines.

Lake City Casinos set a new monthly record in August 2003, generating total net win of more than $10 million.

Permanently extending the Burnaby Casino's daily hours of operation by three hours in August 2003 led directly to a $900,000 jump in table game revenue during our fourth quarter.

During 2003, the Palace Casino generated year-over-year revenue growth of 4% through more focused marketing initiatives, hosting slot and poker tournaments, adding new proprietary table games, fine tuning its slot machine product mix and enhancing customer service levels. This resulted in a 1% increase in market share in both table games and slot machines in an otherwise mature market.

In July 2003, we introduced Touch Bet Roulette at our Burnaby Casino. This electronic game, which combines a live roulette table with individual video-based terminals, has proven highly popular, especially among novice roulette players.

A series of successful targeted marketing campaigns at our Lake City Casinos in 2003 resulted in an increase in our local customer base and a decreased reliance on summer tourism. This has helped increase Lake City's revenues through the winter, which has traditionally been a slower period.

Opportunities

(2004 and beyond)

The British Columbia Lottery Corporation (BCLC) is forecasting BC's casino revenue to grow from the $628 million generated in 2002/2003 to $1.05 billion by 2006/2007. Currently, BC residents spend an average of $202 at casinos each year. That's about one third of what Albertans spend on casinos and VLT's combined ($608) and well below the national average of $466 (casinos & VLT's).

Changes to the gaming environment in British Columbia provide significant opportunities for growth. Specifically, the BCLC has removed a previous restriction of 30 table games and 300 slot machines per facility and moved to a market-driven formula. They are also moving to a new gaming model within the GVRD that envisions a smaller number of large casinos, which will provide a full range of entertainment alternatives including restaurants and bars, live entertainment and other options.

Gateway is responding to these opportunities. We are currently investigating adding up to 100 slot machines at our Burnaby Casino, as a temporary measure. In the longer term, we are looking to relocate the casino to a new, larger, full-service facility in keeping with the BCLC's new model, and are investigating alternative sites.

As the only casinos in BC's fast-growing Thompson-Okanagan region, our four Lake City Casinos are well positioned to capitalize on the area's expanding market. More than 200 technology firms are now based in Kelowna (the region's largest city) and housing starts in the Okanagan-Kelowna area were up 35%, on a year-over-year basis, during the first nine months of 2003.

Growth will also come from potential acquisitions. As an established and respected casino operator, Gateway enjoys a strong competitive advantage when it comes to pursuing any outside acquisitions. In addition, the Fund has the right of first offer on the four casinos operated by GCI (the original vendors of the Fund's six properties), including the new casino being developed in Langley, BC to relocate an existing facility.

Our people are the key to our success. A highly skilled dealer can directly influence "win per customer" by increasing the speed of play, reducing the number of errors and maintaining the flow of the game. At the same time, we've found that friendly, efficient front-line staff build customer loyalty and generate repeat visits. That's why attracting – and retaining- the industry's best people has always been one of our highest priorities.

To Our Unitholders

Year in Review

On behalf of the Trustees and management of Gateway Casinos Income Fund, we're pleased to present our second annual report, which covers the 12 months ended December 31, 2003 – our first full fiscal year. As those who have been following our progress know, the past year has been an extremely busy and exciting time.

Our entire industry got a boost early in 2003, with the February release of the British Columbia Lottery Corporation (BCLC's) 2003/2004 Fiscal Service Plan. In it, the BCLC forecast casino revenue in BC to grow from the $628 million generated in 2002/2003 to $725 million in 2003/2004 – and then to reach $900 million the following year.

To achieve this growth, the BCLC began implementing a series of revenue-building initiatives almost immediately. In mid-March, for instance, the BCLC began upgrading many of BC's older "stepper reel" slot machines to a more interactive, video-based slot style. By mid-June, nearly 25% of our BC slots had been replaced – and were already generating very strong results. We also acquired 58 additional machines at our Lake City Casinos, with the Kamloops Casino receiving 25 and the Vernon Casino gaining 33.

Together, these developments helped Gateway achieve strong, steady financial results that just kept improving as the year went on. Revenue grew from $19.2 million in the first quarter to $23.5 million in the fourth. Net earnings jumped from $6.8 million, or $0.26 per unit, in the first quarter, to $10.0 million, or $0.38 per unit, for the three months ended December 31, 2003. And our EBITDA margin rose from 42% at the beginning of the year to 47% by its close.

More importantly, we consistently exceeded our annual cash distribution target. As you know, our policy is to make equal monthly distributions to our unitholders based on our estimate of distributable cash for the year. For 2003, we estimated Gateway would generate $1.20 per unit, or $0.10 per unit per month. By the end of September, it was clear that our elevated financial performance was sustainable and that we were going to surpass this goal.

Accordingly, the Trustees of the Fund raised our annual distribution target to $1.26 per unit, or $0.105 per unit per month, beginning with September's distribution. They also approved a special year-end distribution of $0.056 per unit, bringing total 2003 cash distributions paid to $1.276 per unit. As one of our key goals is to build a strong, trust-based relationship with our unitholders, we're very pleased with these results.

Outlook

We expect to maintain our solid financial performance in the coming year. We believe the new slot machines will continue to generate revenue at a higher rate than their predecessors. We anticipate the introduction of popular new games, such as Craps, at our BC casinos. And marketing programs across our operations are working to enhance our strong, loyal customer base.

We are also seeing further positive changes in BC's gaming industry. In February 2004, the BCLC released its Service Plan for fiscal 2004/2005 – 2006/2007, which forecasts BC's casino market to continue growing until at least 2006/2007, when annual casino revenue is forecast to hit $1.05 billion.

As Gateway has seen firsthand, the BCLC has already made strides toward achieving its revenue objectives by upgrading older slot machines, installing additional slot machines in existing casinos, and introducing popular new games. Now, they're moving forward on another key initiative – encouraging established casino operators to offer a wider variety of amenities, such as show lounges, restaurants and bars. By providing a more comprehensive entertainment experience, these larger-scale casinos will be better positioned to attract new clientele and compete against other gaming jurisdictions in Canada and the US.

There's already been strong industry response to this broadened gaming model, with the BCLC and respective municipal governments approving several related initiatives. These include relocating two casinos to large new developments in the Vancouver suburbs of Richmond and Langley, installing up to 400 slot machines at a racetrack in the suburb of Surrey, and combining two existing casino licenses to create a single, more spacious facility at Vancouver's old Expo 86 site. In addition, the owners of the Hastings Park Raceway in Vancouver have applied to install up to 600 slot machines at their racetrack. No decision will be made regarding that proposal until June 2004.

Clearly, these developments are transforming the Greater Vancouver Regional District's (GVRD's) casino landscape. However, we firmly believe there is sufficient unmet demand in the region to support additional facilities. Based on per capita gaming statistics from more mature Canadian gaming markets, we estimate that the GVRD's annual casino market potential is greater than $700 million – well above the $400 million generated during the 12 months ended March 31, 2003.

Nevertheless, we recognize that the opening of new casinos may affect our Burnaby operations in the medium-term. In response, we're pursuing a number of counter-strategies, including increasing the number of slot machines offered at our current location, and relocating the facility to larger premises. We're also conducting focused marketing campaigns to leverage the casino's well-established popularity. Since opening in 1999, the Burnaby Casino has consistently outperformed every other casino in BC, both in terms of customer visits and net revenue.

Our Lake City Casinos are also expected to turn in another strong performance this year. During 2003, these facilities recorded year-over-year revenue growth of $2.7 million, or 10%. While this was due, in part, to upgraded slot machines in all facilities and the additional slot machines installed at our Vernon and Kamloops casinos, some of the credit also belongs to our marketing team, whose efforts to attract more local players are producing measurable results. In addition, as the only casinos in one of Canada's fastest growing regions, our Lake City facilities are well positioned to benefit from a steady influx of new residents.

In the more mature Alberta market, we believe the Palace Casino will also continue to record strong, stable results. Its high-traffic location in the West Edmonton Mall, together with our ongoing commitment to superior customer service, enabled the facility to post a 4% year-over-year increase in gaming revenue during 2003. We expect this annual growth rate will be sustained over the long-term.

In closing, we'd like to thank the entire Gateway team for all their hard work during 2003. It was an incredibly busy year, but together, we achieved all of our financial targets and performance objectives. Congratulations on a job well done.

We'd also like to extend our thanks to our Trustees and Directors, each of whom has provided invaluable guidance throughout the year. In particular, we wish to acknowledge the contribution of Anthony Griffiths and Albert Gnat. Mr. Griffiths will not be standing for re-election at our upcoming AGM. We thank him for his time and effort and wish him well in the future.

We will also miss the counsel of Albert Gnat, who passed away unexpectedly on April 15, 2004, after a brief illness. Mr. Gnat was a well-respected Trustee and Director, who brought strong business experience and acumen to the Fund. Our condolences to his family and loved ones.

Joining the Board in Mr. Griffiths' and Mr. Gnat's stead are Bryan Williams, QC and Andrew C. Burns, CA. Mr. Williams is a former Chief Justice of the BC Supreme Court, and currently acts as associate counsel at Miller Thomson LLP, one of Canada's most respected national business law firms.

Mr. Burns is an independent consultant specializing in strategic planning, corporate governance and risk management. Previously, he was a senior partner at Deloitte & Touche in Canada, as well as a Managing Partner at Deloitte Touche Tohmatsu, Switzerland and Deloitte Touche Tohmatsu, Thailand. We are pleased to include them amongst our Trustee and Director group.

Finally, a special thanks to you, our unitholders, for your ongoing trust and support. We look forward to another successful year in 2004.

Sincerely,

Raymond A. McLean
Chairman, Gateway Casinos Income Fund
Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia
Trustee, Gateway Casinos Income Fund
President, Gateway Casinos G.P. Inc.

Management's Discussion and Analysis

This management's discussion and analysis of our operating results and financial position is dated as of March 16, 2004 (and amended April 5, 2004), and should be read in conjunction with the audited consolidated financial statements of the Gateway Casinos Income Fund (the "Fund") for the year ended December 31, 2003, as well as the accompanying notes, (the "Audited Financial Statements") which are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles.

Forward-looking statements

This management's discussion and analysis may contain forward-looking statements, which reflect management's expectations regarding the future growth, results of operations, performance and business prospects and opportunities of the Fund and its subsidiaries. Forward-looking statements typically contain words such as "anticipates", "believes", "continue", "could", "expects", "indicates", "plans" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management. Forward-looking statements involve significant risks and uncertainties. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including the effects, as well as changes in: national and local business and economic conditions; political or economic instability in local markets; competition; consumer preferences, spending patterns and demographic trends; legislation and governmental regulation. Although the forward-looking statements contained in this management's discussion and analysis are based upon what management believes to be reasonable assumptions, the Fund cannot assure readers that actual results will be consistent with these forward-looking statements.

Structure of the Fund

The Fund was launched on November 28, 2002 when it completed its initial public offering and indirectly acquired the operating assets of the Burnaby Casino in Greater Vancouver, British Columbia, the four Lake City Casinos in the Thompson/Okanagan region of British Columbia and the Palace Casino in Edmonton, Alberta, from wholly owned subsidiaries of Gateway Casinos Inc. ("GCI").

The casinos are operated by the Gateway Casinos Limited Partnership ("Gateway" or "the Partnership"), through operating agreements and licenses with the British Columbia Lottery Corporation ("BCLC") and the Alberta Gaming and Liquor Commission ("AGLC"). The Fund is, indirectly, a limited partner in Gateway, and holds all of the voting rights with respect to its operations. The Fund makes monthly cash distributions to our unitholders based on Gateway's operating results.

On November 28, 2002, Gateway acquired the operating assets of the Burnaby Casino, the four Lake City Casinos, and the Palace Casino for total consideration of $275,539,000, consisting of Class A Units of the Partnership with a stated capital of $227,180,000 and promissory notes of $48,359,000. Concurrent with the acquisition, the Fund issued 10,567,000 units at a price of $10 per unit pursuant to its initial public offering and a further 15,850,687 units at a price of $10 per unit to the shareholders of GCI (the "GCI Shareholders"). Net proceeds of the offerings totaled $254,726,000, after deducting offering expenses of $9,451,000. The proceeds were used to subscribe for 2,550,269 units of Gateway Trust (the "Trust") and $229,524,000 of Trust Notes bearing interest at 8.0% per annum. In turn, the Trust subscribed for Class B units of the Partnership with a stated capital of $24,847,000 and advanced secured loans of $227,180,000 to the GCI subsidiaries (the "Secured Loans"). The Secured Loans bear interest at 8% per annum and are secured by all the Class A Units of the Partnership and the proceeds from any distributions or redemptions of these units.

After completion of these transactions, the GCI Shareholders held 60% of the outstanding units of the Fund.

Fund Units

The Fund had 26,417,687 units outstanding as at December 31, 2003 and as at the date of this management's discussion and analysis. There are no securities outstanding that are convertible into, or exercisable or exchangeable for, units of the Fund.

Relationship Between the Class A Units of the Partnership & Secured Loans

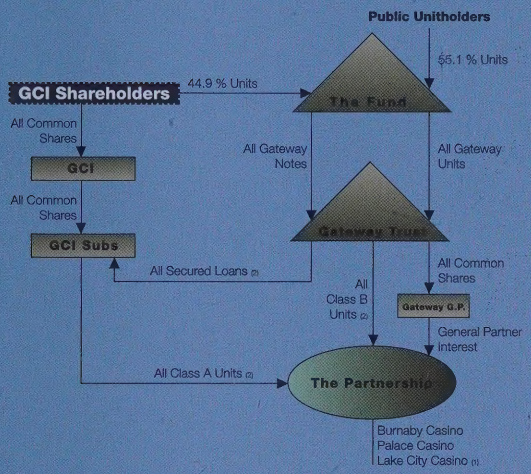
The Class A Units of the Partnership, which are described in note 12 to the Audited Financial Statements, entitle the holder to a preferential allocation of income and distributable cash equal to 8.01% per year of the stated capital of the Class A Units. All of the Class A units are held by subsidiaries of GCI, and, along with all distributions from and redemptions of the units, are pledged as security for the Secured Loans advanced by the Trust.

Since the Fund's inception, the stated capital of the Class A units and the amount outstanding under the Secured Loans have been equal. This effectively balances the cash the Partnership pays out on the preferential distribution on the Class A Units with the interest the subsidiaries of GCI pay to the Trust on the Secured Loans, so that all the distributable cash generated by the Partnership is available for distribution to unitholders of the Fund.

Under the terms of the Partnership Agreement, the Partnership may redeem the Class A Units in the event that the Trust subscribes for additional Class B Units of the Partnership. If the Secured Loans are repaid in part or in full, the Trust can use these proceeds to subscribe for additional Class B Units of the Partnership, which can in turn redeem Class A Units. In this way, the Fund can ensure that the stated capital of the Class A Units is equal to the amount of the outstanding Secured Loans and maintain the balance between the distributions on the Class A Units and the interest on the Secured Loans.

Secondary Offering of GCI Shareholders

On February 10, 2004, the GCI shareholders completed the sale of 4,000,000 units of the Fund at a price of $15.70 per unit, reducing their ownership of the Fund to approximately 45%. The structure of the Fund after the completion of this transaction is shown below.



(1) The Lake City Casinos are operated by Lake City Limited Partnership, a limited partnership of which a wholly owned subsidiary of Gateway G.P. is the general partner and the Partnership is the sole limited partner.

(2) Upon the completion of this Offering, the GCI Shareholders repaid $40,000,000 to one of the GCI Subs as partial repayment of certain loans outstanding between the GCI Subs and the GCI Shareholders. Under the terms of the Secured Loans, the GCI Sub repaid the same amount to Gateway Trust as a partial repayment of the Secured Loan outstanding between the GCI Subs and Gateway Trust. Gateway Trust used the proceeds from the repayment of the Secured Loan to subscribe for additional Class B Units of the Partnership and the Partnership used the proceeds from the issue of Class B Units to redeem Class A Units held by the GCI Sub. The net impact on the consolidated balance sheet of the Fund is a decrease of $40,000,000 in the Class A Units outstanding and a corresponding reduction in the amount of Secured Loans receivable.

General

Gateway operates six casinos in Western Canada; five in British Columbia and one in Alberta. The location of each casino, and the number of slot machines and table games at December 31, 2003, is listed in the table below.

Casino	Location	Number of slot machines & electronic games	Number of table games
Gateway Casino - Burnaby	Burnaby, B.C.	300	34
Lake City Casinos			
Kamloops	Kamloops, B.C.	300	8
Kelowna	Kelowna, B.C.	300	12
Penticton	Penticton, B.C.	224	10
Vernon	Vernon, B.C.	210	8
Palace Casino	Edmonton, AB	705	30

In Canada, most gaming activities, including casino operations, are conducted and managed by the provincial governments. They retain the majority of the revenue generated after pay out to customers, and use these funds to support charitable organizations and government initiatives. The gaming industry is generally considered to include lotteries, bingo games, pari-mutuel wagering (such as horse racing) and games typically associated with casinos, such as table games and slot machines. Casino revenue is measured in terms of "win", which is the amounts wagered on gaming activities, less pay out to customers.

Western Canadian Casino Market

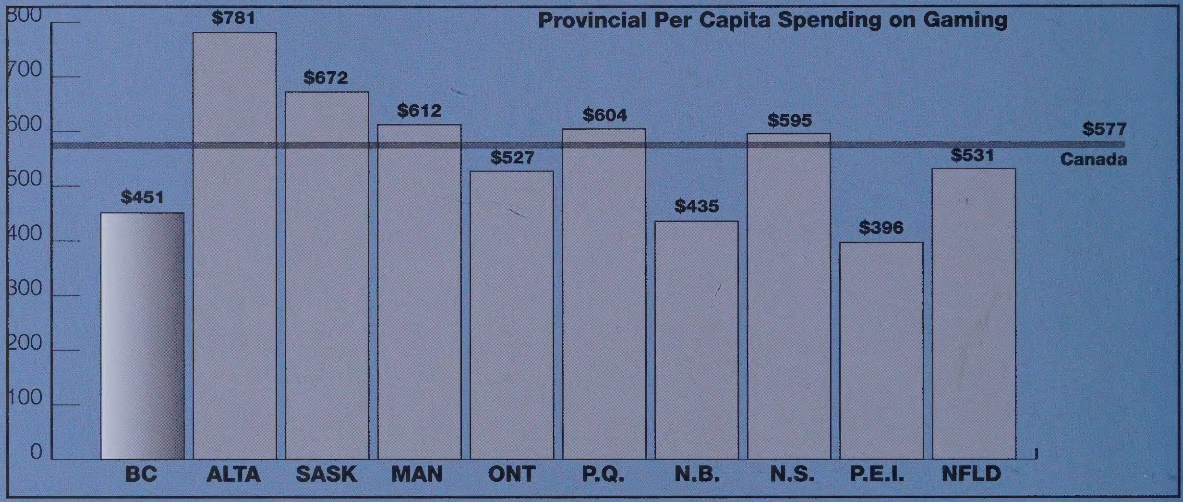
In Western Canada, the provincial governments have developed a casino model where they contract third-party operators, like Gateway, to oversee the day-to-day operations of casinos. In both BC and Alberta, the provincial governments decide which games and products will be available, set the rules of play, including the pay out on slot machines and other electronic games, determine the procedures by which the casinos must be operated, and monitor the operations. They also provide and maintain all of the gaming equipment, including the slot machines. In BC, this is the responsibility of the British Columbia Lottery Corporation (the "BCLC") and in Alberta, the Alberta Gaming and Liquor Commission (the "AGLC").

Operators like Gateway provide the facilities, the furniture and fixtures, the labour, security, surveillance and administration required to ensure the casinos operate efficiently. In return, we are paid a fee equal to a percentage of the revenue generated at each casino. This fee differs between provinces, as shown below:

	British Columbia	Alberta
Slot machines and other electronic games	25%	15%
Table games	40%	50%

The casino market in Alberta is a mature market. The province has a total of 18 casinos and racing entertainment centers (also known as racinos) and provides video lottery terminals ("VLTs") in over 1,000 locations. According to the AGLC, at March 31, 2003 there were a total of 6,347 slot machines and 5,995 VLTs in the province. There are five full-service casinos and over 200 VLT retailers in the Greater Edmonton region, serving a population of approximately 945,000. At March 31, 2003, these facilities had a total of 2,808 slot machines and 1,178 VLTs.

By contrast, BC's casino market is relatively immature. On March 31, 2003, there were 20 casinos in the province, housing a total of 3,308 slot machines. In the Greater Vancouver region, there were 10 casinos, serving a population of approximately 2.0 million, with 1,069 slot machines. According to a recent study by KPMG, BC has one of the lowest levels of per capita gaming expenditure of any Canadian province.



Per capita spending represents the amount spent by a person of majority, based on the legal age in each province.
Gaming includes casinos and VLTs, lotteries, bingo and pari-mutuel wagering
Source: KPMG LLP

Changes to the BC Market

Historically, the BC casino market has lagged behind Canada's other gaming jurisdictions, both in terms of the size of facilities and the types of games available. Provincial government policies imposed an arbitrary restriction of 300 slot machines and 30 table games per casino, and many municipal governments, including the City of Vancouver, did not allow slot machines within facilities. These factors played a key role in the province's comparatively low per capita spending levels.

In February 2003, the BCLC released its Service Plan for 2003/2004, in connection with the release of the provincial budget. The Service Plan forecast gross casino revenue to total $725 million for the year ending March 31, 2004, a $55 million increase over the forecast results for 2002/2003. The growth is forecast to continue in 2005/2006, when projections reach $900 million. The provincial budget indicated the revenue increases would result by raising the number of BC slot machines to the current policy maximum of 5,400 and by updating slot machines to industry-standard. The BCLC also indicated there would not be any new casinos licenses issued in the foreseeable future. In February 2004, the BCLC released its Service Plan for 2004/2005, which continues to call for increased gaming revenues; casino revenue is forecast to grow to $1.05 billion by 2007.

In March 2003, the BCLC began to implement its growth strategy by introducing a program to replace a portion of the older "stepper reel" slot machines offered at BC casinos with a new generation of interactive, video-based machines popular in other gaming jurisdictions in Canada and the U.S. Accordingly, approximately 25% of our slot machines were replaced by the end of the second quarter of 2003.

In addition to upgrading older machines, the BCLC began increasing the number of slot machines at facilities where there was deemed to be sufficient market demand, and where the facility could accommodate additional machines. During the second quarter, our Lake City Casinos gained 58 new machines, with the Vernon Casino receiving 33 new machines and the Kamloops Casino receiving 25.

Financial Performance

The 12 months ended December 31, 2003 represents the Fund's first full year of operations since its formation. As the comparative information in the Audited Financial Statements for the previous year-end is for the 34-day period from November 28, 2002 to December 31, 2002, it is not directly comparable to the current year's results and cash flows.

To provide readers of this MD&A with a better understanding of our 2003 results, we have provided revenue and direct operating costs for the full year of 2002 for each of the Burnaby Casino, the Lake City Casinos and the Palace Casino in the discussion of reporting segments below. The comparative figures of the Burnaby Casino and the Palace Casino combine the results of operations for the period of January 1, 2002 to November 27, 2002, as operated by GCI, and for the period of November 28, 2002 to December 31, 2002, as operated by the Partnership. The comparative figures for the Lake City Casinos compare the operating results for the period of January 1, 2002 to June 7, 2002, prior to their acquisition by GCI, for the period June 8, 2002 to November 27, 2002, as operated by GCI, and for the period of November 28, 2002 to December 31, 2002, as operated by the Partnership. These figures are provided for information only and may not be reflective of the results of operations had the casinos been operated by the Partnership for the entire comparative period.

Selected Annual Information

(C$ in thousands, except per unit figures)

	Year ended December 31, 2003	For the period November 28, 2002 to December 31, 2002
Revenue		
Table games	26,242	2,527
Slot machines and other electronic games	54,964	4,460
Other	5,309	527
	86,515	7,514
Expenses	47,620	4,390
Earnings before interest and amortization	38,895	3,124
Net earnings	33,991	2,622
Basic and fully-diluted earnings per unit	1.29	0.10
Distributable cash generated, per unit	1.419	0.118
Distributions declared, per unit	1.276	0.110

	December 31, 2003	December 31, 2002
Total assets	285,529	292,772
Total long-term financial liabilities	262,538	270,063
Unitholders' equity	22,991	22,709

Results of Operations

Revenue

Gateway's revenue is primarily earned through fees paid by the BCLC for operating the five BC casinos and by the AGLC for operating the Palace Casino. We also generate revenue by providing related casino services such as food and beverage, parking, foreign exchange services, and automated teller machines.

Total consolidated revenue for 2003 was $86.5 million, with our operations showing quarter-over-quarter growth through the year.

C$ in thousands	Q1/03	Q2/03	Q3/03	Q4/03	2003 Total
Table games revenue	6,152	6,076	6,478	7,536	26,242
Slot machines and other electronic games revenue	11,890	13,868	14,800	14,406	54,964
Other revenue	1,176	1,208	1,411	1,514	5,309
	19,218	21,152	22,689	23,456	86,515

The main driver of our quarterly growth was the replacement of slot machines in our BC casinos and the addition of 58 machines in our Kamloops and Vernon casinos. As discussed above, approximately 25% of the slot machines in our BC casinos were replaced with interactive, video-based slot machines between March 2003 and June 2003. This led to an increase of approximately 25% in the "average win per day per machine" for all our BC slot machines, and resulted directly in the $2.0 million increase in slot machine revenue we recorded during the second quarter of 2003.

The ongoing popularity of the new slot machines continued to bolster Gateway's results during the third quarter. While the number of slot machines did not increase, revenue rose by approximately $1.5 million, or 7%, over the previous period. Revenue from slot machines and other electronic games accounted for approximately $1.0 million of this increase, with the majority of the growth coming from the Burnaby Casino and the Lake City Casinos.

Our table games revenue also grew during the third and fourth quarter, mainly due to increases at the Burnaby Casino, which were related to two key events. The first was the introduction of Touch Bet Roulette in late July. Touch Bet Roulette combines a live roulette table with individual, video-based terminals. It has proven popular in other jurisdictions, successfully introducing roulette to new players who may have been too intimidated to play at a live table. To date, this game has also proven very popular at the Burnaby Casino, particularly as we were able to install two Touch Bet terminals within our designated smoking room. This enables people to smoke and play at the same time, and is the only "table game" within the Burnaby Casino where smoking is permitted.

A three-hour increase in the Burnaby Casino's daily hours of operation had an even greater impact on our annual table games revenue. Beginning in August 2003, the casino changed its operating hours from 10:00am to 4:00am, to 9:00am to 6:00am. Extending our early morning hours from 4:00am to 6:00am contributed directly to an increase of approximately $900,000 in our fourth quarter table games revenue.

Our third quarter revenue was also impacted by a rise in visitor levels during the summer tourist season. While all our casinos are considered "community-based" and are marketed primarily to local residents, the Lake City Casinos are located in cities that rely heavily on summer tourism and record a dramatic increase in their populations in July and August. Similarly, the West Edmonton Mall is one of Alberta's most popular summer tourist attractions. Both of these operations see an increase in revenue during July and August as a spin-off from the regions' tourism.

Expenses

Total expenses for the year were $47.6 million, which represents 55% of total revenue for the year. Expenses on a quarterly basis were:

C$ in thousands	Q1/03	Q2/03	Q3/03	Q4/03	2003 Total
Corporate and general administration	955	1,215	749	1,377	4,296
Cost of food & beverage services	384	374	448	396	1,602
Human resources	7,853	7,919	8,445	8,348	32,565
Marketing and promotions	431	521	375	635	1,962
Occupancy	654	744	752	343	2,493
Operating	822	1,256	1,194	1,430	4,702
	11,099	12,029	11,963	12,529	47,620
Percentage of total revenue	57.8%	56.9%	52.7%	53.4%	55.1%

Wages and benefits are the largest component of our expenses, accounting for nearly 70% of our annual total. We actively manage our labour expenses, effectively matching them to visitation levels and patterns at our casinos. As discussed previously, our revenue increased during the first three quarters of 2003 due mainly to the upgrading of slot machines in BC. As the labour expense associated with slot operations is relatively fixed, up to a certain number of slot machines, the increased slot revenue did not translate into a significant increase in operating costs. As a result, our expenses remained consistent over the first three quarters in terms of total dollars, but fell as a percentage of revenue. The increase in our expenses during the fourth quarter was primarily due to the extended operating hours at the Burnaby Casino, and the resulting increase in labour and operating costs.

EBITDA and Net Earnings

The Fund generated earnings before interest and amortization ("EBITDA") of $38.9 million for the year ended December 31, 2003, resulting in an EBITDA margin of 45%. This has increased on a quarterly basis from 42% in the first quarter of 2003 to approximately 47% in the fourth quarter.

After amortization and net interest expense, the Fund generated net earnings of $34.0 million for the year.

Summary of Quarterly Results

(C$ in thousands, except per unit figures)

	2003				For the period November 28, 2002 to December 31, 2002
	Q1	Q2	Q3	Q4	
Total revenue	19,214	21,152	22,689	23,460	7,514
Expenses	11,099	12,029	11,963	12,529	4,390
Earnings before interest and amortization	8,115	9,123	10,726	10,927	3,124
Net earnings	6,840	7,827	9,292	10,032	2,622
Basic and fully diluted earnings per unit	0.26	0.30	0.35	0.38	0.10

Operating Segments

The Partnership has three operating segments based on geographic markets. These are the Burnaby Casino, the Lake City Casinos and the Palace Casino. As discussed above, we have provided revenue and direct operating costs for the full year of 2002 for the Burnaby Casino, the Lake City Casinos and the Palace Casino for comparative purposes only. These figures do not solely reflect operations of Partnership and may not be reflective of the results of operations had the casinos been operated by the Partnership for the entire comparative period.

Burnaby Casino

C$ in thousands	Year ended December 31,		
	2003	2002 [1]	% change
Revenue			
Gaming revenue	36,725	32,421	13.3%
Other revenue	1,026	148	593.2%
	37,751	32,569	15.9%
Operating expenses			
Human resources	10,257	8,928	14.9%
Occupancy	781	267	192.5%
Other operating expenses	2,292	1,820	25.9%
	13,330	11,015	21.0%
Operating earnings before amortization	24,421	21,554	

[1] Represents the results of operations from January 1 to November 27, as operated by GCI, plus the results of operations from November 28 to December 31, as operated by the Partnership

The year-over-year increase in the gaming revenue generated at the Burnaby Casino during 2003 is entirely due to increased slot machine revenue. This was offset by a decrease in table games revenue of approximately $1.5 million, which was due mainly to interruptions experienced during the installation of a table games management system in the second quarter. The year-over-year increase in slot machine revenue was due primarily to two factors. First, as discussed above, the Burnaby Casino saw approximately 25% of its slot machines upgraded to interactive, video-based games. This resulted in an approximate 25% increase in the average "win per day per machine" and accounts for the majority of the revenue increase. Secondly, the Burnaby Casino's 2002 revenue was negatively impacted by the introduction of a Workers Compensation Board regulation that effectively prohibited smoking in all BC workplaces on May 1, 2002. This reduced our revenue by approximately 10% almost immediately. Although the revenue began to return to its previous levels during the next three months, we built a dedicated smoking room at the casino to accommodate our customers. This room, which holds 70 slot machines, was opened in December 2002. Subsequently, our revenue returned to its pre-May levels almost immediately.

The year-over-year increase in Other Revenue during 2003 comprises the parking and ATM revenues generated at the casino, which were not part of the reported revenues in 2002. These totaled $1.0 million for 2003, and were offset by a reduction of approximately $150,000 from 2002 in foreign exchange revenue.

During 2003, total operating expenses at the Burnaby Casino increased by $2.3 million compared to 2002. Of this, approximately $1.3 million was due to increased wages and benefits. This represents an average 3% wage increase implemented on January 1, 2003, and the impact of the extended operating hours implemented in August 2003. The remaining $1.0 million is related to rent of $350,000 for the parking garage, which was not included in the 2002 expenses; a 35% increase in insurance premiums; legal costs associated with a lawsuit against the casino's landlord, as discussed below; and additional operating costs related to the longer operating hours.

Lake City Casinos

C$ in thousands	Year ended December 31,		
	2003	2002 [1]	% change
Revenue			
Gaming revenue	28,487	25,629	11.2%
Food & beverage revenue	564	477	18.2%
Other revenue	112	338	-66.9%
	29,163	26,444	10.3%
Operating expenses			
Human resources	13,700	13,861	-1.2%
Occupancy	517	622	-16.9%
Other operating expenses	3,047	4,033	-24.4%
FDF expense recovery	(615)	(2,517)	-75.6%
	16,649	15,999	4.1%
Operating earnings before amortization	12,514	10,445	

[1] Represents the results of operations from January 1 to June 7, prior to the acquisition by GCI, plus the results of operations from June 8 to Novembers 27, as operated by GCI, plus the results of operations from November 28 to December 31, as operated by the Partnership

Annual gaming revenue at the Lake City Casinos increased by $2.9 million in 2003, which is the net effect of an increase of $3.2 million in slot machine revenue and a $360,000 decrease in table games revenue. The primary driver for the increase in slot machine revenue was the replacement of slot machines in all four casinos and the additional machines installed at the Vernon and Kamloops casinos, as discussed above. Additionally, after the acquisition of the Lake City Casinos by GCI, we initiated a series of marketing campaigns designed to strengthen the local customer base during the winter months. This has resulted in increased revenue during these historically slower periods.

While all our casinos are considered "community-based" and are marketed primarily to local residents, the Lake City Casinos are located in cities that rely heavily on summer tourism and record a dramatic increase in their populations in July and August. This summer, tourism in the Thompson / Okanagan region of British Columbia was severely impacted by one of the worst forest fire seasons on record. The area was hit by over 700 wildfires covering more than 100,000 hectares, including major fires in or near each of the cities where the Lake City Casinos are located. The most significant of these fires was the Okanagan Mountain fire, which destroyed homes and property within the city boundaries of Kelowna, B.C.

Despite the temporary reduction in tourism these fires caused, the Lake City Casinos recorded strong third quarter results. In fact, while revenues at our Kelowna and Penticton casinos dipped by approximately 15% during the third week of August, they recovered quickly and the Lake City Casinos went on to set a new monthly record in August, generating total net win of more than $10 million.

During 2003, total operating expenses were $650,000 higher than in 2002. However, when FDF expense recoveries are excluded, our 2003 expenses actually fell by $1.3 million. Of this, approximately $200,000 was due to reduced wages and benefits, with the balance coming from a decline in operating costs. Of the $1.0 million reduction in operating costs, approximately $500,000 was due to legal costs incurred in 2002, which were related to potential projects and opportunities that were either not completed or not acquired by the Partnership. The remaining $500,000 was due to a rationalization of expenses by GCI after it acquired the casino operations.

The FDF expense recovery for the Lake City Casinos is related to the recovery of previous years' eligible operating expenses from facility development funds (or "FDFs"). As discussed more fully in note 5(b) to the Audited Financial Statements, The Lake City Casinos have incurred eligible expenses greater than FDF funds available for reimbursement. Gateway records a reduction in capital costs or expenses when funds are generated, which are allocated to incurred expenditures on a first-in-first out basis. In 2002 the Lake City Casinos had an unusual recovery of operating expenses of $2.5 million from the one-time co-mingling of the FDF accounts for the Burnaby Casino and the Lake City Casinos. The 2003 recovery is the Partnership's allocation to operating expenses of FDF funds received in 2003.

Palace Casino

C$ in thousand	Year ended December 31, 2003	2002 [1]	% change
Revenue			
Gaming revenue	15,994	15,356	4.2%
Food & beverage revenue	3,413	3,112	9.7%
Other revenue	194	-7	-2871.4%
	19,601	18,461	6.2%
Operating expenses			
Human resources	8,608	8,264	4.2%
Occupancy	1,195	1,228	-2.7%
Other operating expenses	3,542	3,038	16.6%
	13,345	12,530	6.5%
Operating earnings before amortization	6,256	5,931	

(1) Represents the results of operations from January 1 to November 27, as operated by GCI, plus the results of operations from November 28 to December 31, as operated by the Partnership

During 2003, operating results at the Palace Casino were relatively consistent with 2002, with gaming revenue growing by approximately $650,000. Although our table games revenue saw a slight year-over-year decrease, an 11% increase in slot machine and electronic games revenue more than offset this. Unlike the Partnership's BC operations, the number and types of slot machines found at the Palace Casino in 2003 did not differ from 2002. The majority of our revenue growth is due to a general increase in casino win across Edmonton's gaming industry.

In 2003, annual operating expenses at the Palace Casino were up by approximately $800,000 from 2002. This is largely attributable to two factors. First, Food & Beverage expenses grew by approximately $150,000, or 13%, for the year, which is consistent with a 10% increase in Food & Beverage revenue. The remaining $650,000 is related to a new collective agreement formed with the Palace Casino Staff Association ("PCSA"). Although the PCSA is not a union, the Partnership has voluntarily recognized it as the sole bargaining agent for the casino's employees. During 2003, the Partnership negotiated a new three-year agreement with the PCSA, retroactive to November 1, 2002. This resulted in an increase in our wages and benefits expenses of $635,000, or 4.5%, for the year. Additionally, the Partnership incurred legal expenses of approximately $300,000 during the lengthy negotiations.

Pursuant to a directive by the Alberta government, the Partnership was required to sell its SEGA Royal Ascot Electronic Racing game to the AGLC for proceeds of $117,000, which resulted in a loss on sale of assets of $124,000. In connection with this, the AGLC restructured the compensation related to operating the SEGA games, reducing it from 75% of net win to 15%. This is consistent with other electronic games. Management estimates that this change will result in an annual reduction in slot machine and electronic games revenue of approximately $360,000, net of direct expenses.

Outlook

2004 looks to be a year of opportunities and challenges for the Fund and our operations. While we anticipate the upgraded slot machines at our BC casinos will continue to generate revenue at a higher rate than we recorded prior to the BCLC's slot replacement program, there may be some short-term pressure on revenues at the Burnaby Casino, as new, larger facilities replace existing casinos in the Greater Vancouver Regional District (GVRD).

As part of its ongoing efforts to increase its revenue contribution to the BC government, the BCLC introduced changes to the province's gaming model during 2003. This new model, which the BCLC presented in February 2003, in connection with the release of its 2003/2004 Service Plan, envisioned increasing the number of BC's slot machines from the approximately 3,300 in service at that time, to the policy maximum of 5,400. It also proposed the development of larger, more modern facilities to provide a variety of entertainment options, including casino games, restaurants and show lounges. In keeping with this new model, the BCLC, and the respective municipal governments, have recently approved several new initiatives, including: the relocation of two casinos to new developments in Richmond and Langley, BC; the combination of two existing licenses in the City of Vancouver to create a single casino, which will be located at the Plaza of Nations and house 600 slot machines; and the installation of up to 250 slot machines at Fraser Downs Racetrack in Surrey, BC. Additionally, the owners of the Hasting Park Raceway in Vancouver have put forward a proposal to install up to 600 slot machines at their racetrack. In December 2003, the Vancouver City Council postponed a decision on this proposal for six months until a development plan for the entire Hastings Park area is completed.

Gateway's main competitor will operate the new Richmond casino and has stated that it may house up to 950 slot machines and 75 table games, as well as a restaurant, show lounge and hotel. The casino portion of the project is scheduled for completion during the second quarter of 2004. Additionally, the Fraser Downs Racetrack is planning to open a temporary facility in April 2004, while they construct a new permanent facility.

Regardless of the outcome of the Hastings Park casino proposal, these are significant changes to the casino landscape in the Greater Vancouver Regional District ("GVRD"). However, we believe there is sufficient unmet demand in the market to support these additional facilities. Based on per capita casino gaming stats extrapolated from more mature Canadian gaming markets, the total potential gaming win for the GVRD is estimated by management to be more than $700 million. During the year ended March 31, 2003, total win for the GVRD was approximately $400 million.

While management believes that a market exists for expanded casino facilities in the GVRD, the opening of the new Richmond casino and the introduction of slot machines in the City of Vancouver could have a negative impact on the Burnaby Casino's results in the medium term. While it is too early to determine the possible effect on the Fund's operations, we are currently evaluating a number of mitigating strategies, including expanding the existing Burnaby facility, or relocating the Burnaby Casino to a new, larger facility in the general vicinity of its existing location.

During the fourth quarter, a rezoning application was submitted to develop a new, larger casino facility for the Burnaby Casino on land under option near the existing facility. Gateway is also investigating the addition of up to 100 slot machines at the existing facility as a short-term response. This increase will require a rezoning amendment, for which the landlord has withheld consent. The landlord has indicated that consent for the rezoning application would be granted if we renegotiate the terms of the existing lease. As this contravenes our lease for the Burnaby Casino, we have filed a lawsuit to compel the landlord to comply. We will announce further developments on these issues as they occur.

Liquidity

Distributable Cash

Distributable cash is not a defined term under Canadian generally accepted accounting principles, nor does it have a standard, agreed upon meaning. As such, the Fund's distributable cash may not be directly comparable to distributable cash reported by other income funds or similar issuers.

The Fund's policy is to pay distributable cash to unitholders on a monthly basis to the maximum extent possible. Distributable cash is defined as the Fund's net earnings before amortization, less principal payments on debt, less capital expenditures, net of recoveries from the facility development funds, less any reserves determined by the Trustees to be reasonable and necessary for the operations of the Fund. During the year ended December 31, 2003, the Partnership completed a renovation of the Kamloops Casino for a total cost of $675,000. This was funded through a loan of $700,000 from GCI (see note 10 to the Audited Financial Statements). For purposes of calculating distributable cash, these capital expenditures have been excluded. Loan payments will reduce distributable cash when made.

During the year ended December 31, 2003, the Partnership repaid $1,600,000 of its long-term debt. Subsequent to year end, the Partnership drew an additional $1,200,000 from its credit facilities in connection with the payment of the December 2003 distribution. The net reduction of $400,000 has been used in the calculation of the distributable cash for the year ended December 31, 2003.

Distributable cash was as follows:

	Year ended December 31, 2003	Period from November 28, 2002 to December 31, 2002
	$	$
Cash flows from operating activities before changes in non-cash working capital items	37,646	2,990
Purchases of property and equipment	(1,355)	(52)
Kamloops Casino renovation	675	-
FDF reimbursement received for property and equipment purchases	1,202	174
Payments made on Kamloops Casino renovation loan (note 10 to the Audited Financial Statement)	(276)	-
Payments made on long-term debt (net)	(400)	-
Distributable cash for the period	37,493	3,112
Per unit	1.419	0.118

Distributions were made on a monthly basis as follows:

	Distribution per unit	Payment Date
January 2003	$ 0.100	February 28, 2003
February 2003	0.100	March 31, 2003
March 2003	0.100	April 30, 2003
April 2003	0.100	May 30, 2003
May 2003	0.100	June 30, 2003
June 2003	0.100	July 31, 2003
July 2003	0.100	August 29, 2003
August 2003	0.100	September 30, 2003
September 2003	0.105	October 31, 2003
October 2003	0.105	November 28, 2003
November 2003	0.105	December 31, 2003
December 2003(1)	0.161	January 30, 2004
	$ 1.276	

(1) The December distribution included a regular monthly distribution of $0.105 per unit plus a special, year-end distribution of $0.056 per unit

Originally, our annual distribution target was $1.20 per unit. This was based on our analysis of the historical results of the Partnership's operations prior to them being acquired by the Partnership, which was included in the prospectus prepared for the Fund's initial public offering

As discussed in the preceding pages, the Fund's operations performed better in 2003 than anticipated, which resulted in increases in distributable cash generated. Monthly distributions of $0.10 per unit were declared for January through August 2003, based on our annual target of $1.20 per unit. On October 17, 2003, the Trustees of the Fund approved an increase in monthly distributions to $0.105 per unit, or $1.26 per unit per year, beginning with the distribution for September. This increase reflected our strong performance to that point and our expectation that the performance was sustainable. For December 2003, the Trustees declared a regular distribution of $0.105 per unit, plus a special year-end distribution of $0.056 per unit, for a total distribution of $0.161 per unit.

The special year-end distribution reflected our conservative approach to managing the Fund. Management regularly reviews the underlying fundamentals of the casino operations and makes recommendations to the Board of Trustees about the level of monthly distributions. It is our policy to increase the amount of regular distributions only when there has been a sustainable increase in Gateway's operations. To this end, we wanted to be reasonably certain that the increases to our results recorded through the year were not anomalies, and that we would be able to sustain the higher level of distributions. The result was that we retained distributable cash within the Fund during the first eight months of the year, which was passed on to our unitholders through the special distribution in December.

Management anticipates that the Fund will generate sufficient distributable cash in 2004 to maintain its current monthly distribution level.

Contractual Obligations

The Fund had the following contractual obligations outstanding at December 31, 2003:

C$ in thousands	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 Years	After 5 years
Long-term debt					
Promissory note(1)	900	-	270	180	450
Revolving operating facility(2)	21,100	-	7,033	7,033	7,033
Operating leases(3)	29,070	3,408	6,889	6,216	12,557
Class A Partnership Units	-	-	-	-	-
	51,070	3,408	14,192	13,429	20,040

(1) repayable in 120 equal monthly payments of $7,500 beginning January 1, 2005
(2) term can be extended for additional 364-day periods. See "Revolving Credit Facilities" below.
(3) for the Partnership's casino locations, as well as certain office equipment and office space

Revolving Credit Facilities

The Partnership has established revolving credit facilities with a Canadian Chartered Bank, consisting of a revolving operating facility and a revolving letter of credit facility. Maximum available credit and total outstanding at December 31, 2003 was as follows:

C$ in thousands	Maximum	Outstanding December 31, 2003
Revolving operating facility	25,000	21,100
Revolving letter of credit facility	7,000	7,210

The excess of the outstanding letters of credit over the amount of the facility is being covered by the unused portion of the operating facility.

The facilities have a committed term ending November 28, 2005, and can be extended for additional 364-day periods, provided that the extension is not later than February 28, 2008. In the event that the facilities are not extended, any amounts outstanding at the maturity date will convert to non-revolving facilities repayable over a three-year period. The above table shows the payments due assuming that the facility is not extended at the end of the committed term. Management anticipates that the facilities will be extended.

Full details of the revolving credit facilities are provided in note 11 to the Audited Financial Statements.

Interest Rate Risk

The Partnership is subject to interest rate risk on its revolving operating facilities, as the interest payable is based on a floating rate of interest. The Fund manages exposure to this risk through the use of interest rate swaps with approved creditworthy counterparties. The Fund does not hold or issue derivative financial instruments for trading or speculative purposes. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the consolidated balance sheet.

As at December 31, 2003, the Fund had one interest rate swap contract outstanding, as follows:

C$ in thousands	Notional amount	Maturity date	Fair value
Interest rate swap contract	21,500	June 14, 2007	(1,150)

Under the terms of the swap contract, the Fund pays interest to the counterparty equal to a fixed rate on the notional amount, and receives interest equal to a floating rate on the notional amount. Management attempts to match the term of the floating rate payment to that of the floating rate on the credit facility. The net effect of this contract is to fix the rate of interest on the revolving operating facility over the term of the swap contract. The net difference between the fixed and floating interest payments on the swap is recorded as interest expenses on the Audited Financial Statements. For the year ended December 31, 2003, the effective interest rate on the revolving operating facility was 6.35%.

The fair value of the interest rate swap reflects the estimated amount the Fund would have to pay if it were to unwind the contract at the reporting date.

Capital Resources

Capital expenditures

Capital expenditures for the year totaled $1.36 million. Of this, $675,000 was for the renovation of the Kamloops Casino, which management agreed to renovate in connection with a BCLC proposal to install an additional 25 slot machines at the facility and to spend $800,000 in marketing and new signage for the facility. The renovation began in mid-April and was completed by the end of May. The work was undertaken in phases and there was little or no impact on the casino's overall revenue during construction. The remaining $700,000 of capital expenditures was regular maintenance capital.

Currently, there are no commitments for capital expenditures in 2004. Management anticipates that the amount of maintenance capital expenditures required in 2004 will approximate the total expenditures incurred in 2003.

Facility Development Funds

Gateway's agreements with the BCLC include a provision for the reimbursement of eligible capital and operating expenses from a facility development fund ("FDF") equal to 3% of the total net win generated at the five B.C. casinos. This reimbursement is in addition to the fee paid for operating the casinos. Accumulated funds are held in trust in accounts managed by Gateway and reimbursements are issued from these accounts.

Of the total capital expenditures for the year, approximately $1.0 million were eligible for reimbursement from the FDF funds, including all of the costs of the Kamloops Casino renovation. Those capital expenditures that were not eligible for reimbursement represent costs incurred at the Fund's corporate office and at the Palace Casino in Alberta.

In addition to the FDF reimbursements for capital expenditures, the Fund received approximately $2.7 million in reimbursement of operating costs.

C$ in thousands	**Year ended December 31, 2003**
Total FDF funds generated during the year	6,930
Reimbursements:	
Capital	1,202
Operating	2,704
	3,906

Transactions with Related Parties

The Fund had the following transactions with related parties during the current year:

1. $2,624,000 of the costs of the Fund's initial public offering were incurred on the Fund's behalf by GCI, and were reimbursed by the Fund during the current year.

2. The Fund provides management and administrative services to GCI with respect to its casino operations. Under the terms of a management agreement, the Fund charges a fee to GCI equivalent to GCI's proportionate share of management and administrative expenses. The proportionate share is determined annually based upon a combination of factors including revenue, with consideration given to time spent by senior executives of the Fund on GCI matters relating to sourcing and developing opportunities in the gaming industry. The Fund charged a fee of $1,417,000 to GCI for the year ended December 31, 2003, which is recorded in the Audited Financial Statements as a reduction of administration expenses. For the period from November 28, 2002 to December 31, 2003 the Fund charged GCI a fee equal to $104,000.

3. The Partnership has a contract with a subsidiary of GCI for Automated Teller Machine ("ATM") services at the Burnaby Casino. The Partnership receives a flat fee of $500,000 per annum, payable in equal monthly instalments. During the year ended December 31, 2003, the Partnership earned a fee of $500,000, which is included in other revenue. For the period from November 28, 2002 to December 31, 2003 the Partnership earned $47,000.

4. Effective November 5, 2003, the Partnership entered into a contract with a subsidiary of GCI for ATM services at the Palace Casino. The Partnership receives a fee per ATM transaction equal to the fee per ATM transaction received by the subsidiary of GCI. During the year ended December 31, 2003, the Partnership earned a fee of $19,000, which is included in other revenue.

5. During the year ended December 31, 2003, GCI loaned $700,000 to the Partnership to finance the renovations at the Kamloops Casino. The loan matures on April 30, 2006, is non-interest bearing and is repayable in monthly instalments equal to the incremental cash flow generated by the additional 25 slot machines installed in the casino plus the amount of the reimbursement received from the FDF related to the incremental revenue. Repayments began on June 1, 2003 and the Partnership repaid $276,000 during the year ended December 31, 2003. Management estimates the full amount of the loan will be repaid within the next twelve months and, accordingly, the loan has been classified as a current liability.

Additional Information

Additional information relating to the Fund, including all public filings are available on SEDAR (www.sedar.com) and on the Fund's website (www.gatewaycasinosincomefund.com).

Management's Statement Of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

Dave Gadhia President, Gateway Casinos G.P. Inc.	Bradley D. Bardua, CA C.F.O., Gateway Casinos G.P. Inc.

Auditors' Report

To the Unitholders of Gateway Casinos Income Fund

We have audited the consolidated balance sheets of Gateway Casinos Income Fund (the "Fund") as at December 31, 2003 and 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the year ended December 31, 2003 and for the period from November 28, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations, changes in unitholders' equity and its cash flows for the year ended December 31, 2003 and for the period from November 28, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, Canada
February 27, 2004

Consolidated Balance Sheet

(expressed in thousands of dollars)

	[illegible]	[illegible]
		(note 1)
[illegible]		
Current assets		
Cash and cash equivalents	13,789	18,529
Accounts receivable	856	941
Facility development fund receivable (note 5)	128	83
Due from related parties (note 15)	100	-
Inventory	137	139
Prepaid expenses	371	303
Current portion of prepaid rent (note 6)	804	333
	16,185	20,328
Prepaid rent (note 6)	6,565	4,222
Property and equipment (notes 6 and 7)	5,460	10,738
Deferred employee compensation (note 14)	960	-
Goodwill	9,787	9,787
Intangible assets (note 8)	19,392	20,517
Secured loans (notes 9 and 19)	227,180	227,180
	285,529	292,772
[illegible]		
Current liabilities		
Gaming revenue payable to BCLC and AGLC	3,975	4,270
Accounts payable and accrued liabilities	4,706	4,011
Due to related parties (note 15)	-	8,096
Loan due to related party (note 10)	424	-
Distribution payable to unitholders (note 4)	4,253	2,906
	13,358	19,283
Long-term debt (note 11)	22,000	23,600
Class A Partnership Units (notes 12 and 19)	227,180	227,180
	262,538	270,063
Unitholders' Equity	22,991	22,709
	285, 529	292,772

Organization, acquisition and nature of operations (note 1)

Basis of presentation (note 2)

Commitments (note 17)

Subsequent events (note 19)

Approved by the Board of Trustees of Gateway Casinos Income Fund

Trustee

Trustee

Consolidated Statements of Unitholders' Equity

(expressed in thousands of dollars)

Balance - Beginning of period	22,709	-
Issue of trust units, net of issue costs (note 13)	-	254,726
Reduction to reflect excess of consideration paid over Historical Book Values (notes 1 and 13)	-	(231,733)
Net earnings for the period	33,991	2,622
Distributions declared during the period (note 4)	(33,709)	(2,906)
Balance - End of period	22,991	22,709

Consolidated Statements of Earnings

(expressed in thousands of dollars)

	[illegible]	[illegible]
Revenue		
Table games	26,242	2,527
Slot machines and other electronic games	54,964	4,460
Food and beverage services	3,977	371
Other (note 15)	1,332	156
	86,515	7,514
Expenses		
Corporate and general administration (note 15)	4,296	354
Cost of food and beverage services	1,602	282
Human resources	32,565	2,862
Marketing and promotions	1,962	165
Occupancy	2,493	332
Operating	4,702	395
	47,620	4,390
Earnings before the following	38,895	3,124
Loss on the sale of assets	(124)	-
Interest income on secured loans (note 9)	18,174	1,692
Income allocation on Class A Partnership Units (note 12)	(18,197)	(1,695)
Interest expense, net	(1,226)	(131)
Amortization		
Property and equipment	(1,720)	(231)
Intangible assets	(1,125)	(106)
Prepaid rent (note 6)	(686)	(31)
Net earnings for the period	33,991	2,622
Basic and fully diluted earnings per unit	1.29	0.10
Weighted average number of units	26,417,687	26,417,687

Consolidated Statements of Cash Flow

(expressed in thousands of dollars)

	[illegible]	[illegible]
Cash flows from operating activities		
Net earnings for the period	33,991	2,622
Items not affecting cash		
Amortization of property and equipment	1,720	231
Amortization of intangible assets	1,125	106
Amortization of prepaid rent	686	31
Loss on sale of assets	124	-
	37,646	2,990
Changes in non-cash working capital items	(616)	2,406
	37,030	5,396
Cash flows from investing activities		
Purchase of property and equipment	(1,355)	(52)
Facility development funds received for property and equipment purchases (note 5)	1,202	174
Sale of property and equipment	117	-
Acquisition of casino operations, net of cash acquired (note 1)	-	(43,396)
Secured loans (note 9)	-	(227,180)
	(36)	(270,454)
Cash flows from financing activities		
Distributions paid	(32,362)	-
Due to (from) related parties, net	(8,196)	6,161
Long-term debt proceeds (repayments)	(1,600)	22,700
Loan advanced by related party, net (note 10)	424	-
Issue of trust units, net of issue costs (note 13)	-	254,726
	(41,734)	283,587
Increase (decrease) in cash and cash equivalents	(4,740)	18,529
Cash and cash equivalents - Beginning of period	18,529	-
Cash and cash equivalents - End of period	13,789	18,529

Supplemental cash flow information		
Interest paid	1,330	69
Non-cash transactions		
Issue of Class A Partnership Units on acquisition of casino operations (note 1)	-	227,180

Notes to Consolidated Financial Statements - December 31, 2003

(Tabular amounts expressed in thousands of dollars, except per unit and number of unit figures)

1. Organization, acquisition and nature of operations

Organization

The Gateway Casinos Income Fund (the "Fund") is an unincorporated open-ended limited purpose trust established under the laws of the Province of British Columbia pursuant to the Declaration of Trust made as of October 10, 2002, as amended and restated on November 14, 2002. The Fund was established to invest indirectly, through the Gateway Casinos Trust (the "Trust"), in all of the Class B Partnership Units of the Gateway Casinos Limited Partnership (the "Partnership"), which operates the Burnaby Casino in Greater Vancouver, British Columbia, the four Lake City Casinos in the Thompson/Okanagan region of British Columbia and the Palace Casino in Edmonton, Alberta.

On November 28, 2002, the Fund issued 10,567,000 units at a price of $10.00 per unit pursuant to an initial public offering and a further 15,850,687 units at a price of $10.00 per unit to the shareholders of Gateway Casinos Inc. ("GCI") for total net proceeds of $254,726,000 after deducting expenses of the offering of $9,451,000.

Acquisition

On November 28, 2002, the Partnership acquired the Burnaby Casino, the Lake City Casinos and the Palace Casino from wholly owned subsidiaries of GCI (the "Vendors") for total consideration of $275,539,000, consisting of Class A units of the Partnership ("Class A Units") with a stated capital of $227,180,000 and cash of $48,359,000. The acquisition of the casino operations has been accounted for using the carrying amounts of the assets purchased and liabilities assumed in the accounts of the Vendors (the "Historical Book Values") due to the related party nature of the transaction and shareholder arrangements among the shareholders of GCI. The net assets and liabilities acquired at Historical Book Values are as follows:

Cash and cash equivalents	4,963
Other current assets	1,187
Prepaid rent	4,586
Property and equipment	11,129
Goodwill	9,787
Intangible assets	20,623
Current liabilities	(5,236)
Amounts due to related parties (note 15)	(2,333)
Long-term debt	(900)
Net assets acquired	43,806
Consideration paid	275,539
Excess of consideration paid over Historical Book Values	231,733

In accordance with generally accepted accounting principles for related party transactions, the excess of the consideration paid over the Historical Book Values has been treated as a reduction of unitholders' equity (note 13).

The results of the casino operations acquired have been included in the Fund's consolidated financial statements from the date of acquisition.

In connection with the acquisition, the Trust issued $227,180,000 of secured loans to the Vendors.

During the year ended December 31, 2003, GCI completed the preparation of its financial statements for the period ended December 31, 2002. As a result, the Fund has adjusted its purchase price allocation, resulting in an increase in the goodwill and unitholders' equity of $8,085,000. The adjustment had no impact on cash. No further adjustments are anticipated.

Nature of operations

The Burnaby Casino and the Lake City Casinos are operated pursuant to Casino Operational Services Agreements ("COSAs") between the Partnership and the British Columbia Lottery Corporation ("BCLC"). The Palace Casino is operated pursuant to a Casino Facility License, a Casino Gaming Retailer Agreement, and a Video Lottery Retailer Agreement between the Partnership and the Alberta Gaming and Liquor Commission ("AGLC"). The COSAs for the Burnaby Casino and the Lake City Casinos provide for a 10-year term commencing in 2001 (except for the Penticton Casino, which commenced in 2000), with an option to renew for an additional 10 years, subject to certain conditions. The Casino Facility License from the AGLC has a one-year term that expires on August 31, 2004 and has been renewed annually since 1996. Prior to 1996, the Palace Casino (from its opening in 1989) operated under casino support agreements with individual charities. The other agreements with the AGLC have no specified term and are effective until terminated, at the AGLC's discretion or for certain specified reasons. The Partnership earns gaming revenues based on an agreed percentage of the total win from table games, slot machines and other electronic games as consideration for providing operational services to the BCLC and AGLC.

The operating agreements related to the Partnership's casinos provide that the applicable governing body may suspend or terminate the rights of the Partnership to provide services under the agreements for certain specified reasons. The future operations of the casinos depend on the continuation of the operating agreements.

Pursuant to an agreement dated December 22, 2003 between the AGLC and the Partnership, the AGLC terminated the Electronic Racing Game Agreement with the Palace Casino. In connection therewith, the AGLC purchased the related electronic racing equipment from the Partnership. The Partnership continues to operate the game at the Palace Casino, earning 15% of the net win generated.

2. Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Fund, the Trust, the Partnership and its general partner, Gateway Casinos G.P. Inc., and the Lake City Limited Partnership and its general partner, Lake City Casinos Limited.

3. Significant accounting policies

These consolidated financial statements reflect the following significant accounting policies:

Revenue recognition

Revenues from table games, slot machines and other electronic games consist of the Fund's share of the gaming win pursuant to its operating agreements with the BCLC and the AGLC and are recognized daily based on the daily net gaming win at each of the Fund's casinos. Revenues from food and beverage operations are recognized as the related goods are sold.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. While management believes that these estimates and assumptions are reasonable, actual results could vary significantly.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with a maturity, at date of purchase, of three months or less.

Property and equipment

Property and equipment are recorded at cost less amortization and facilities development funding from the BCLC. Management reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by management by comparing the carrying amount to the estimated future net cash flows the assets are expected to generate. Where the carrying value exceeds estimated net cash flows, the assets are written down to fair value.

Amortization is provided for over the estimated useful lives of the assets on a straight-line basis at the following annual rates:

Building	4%
Furniture and other equipment	20% - 40%
Computer equipment	40%
Leasehold improvements	terms of the leases

Goodwill

Goodwill is recorded at cost and is not amortized. The Fund tests goodwill annually for impairment, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Any excess of carrying value over fair value will be charged to income in the period in which the impairment is determined.

Intangible assets

Intangible assets represent the fair value at date of acquisition attributable to casino operating agreements or licenses acquired through the acquisition of operating casinos. Intangible assets are amortized on a straight-line basis over the term of the related agreement or license, including any extension option.

Management reviews intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by management by comparing the carrying amount to the estimated future net cash flows the assets are expected to generate. Where the carrying value exceeds estimated net cash flows, the assets are written down to fair value.

Facility development fund recoveries

The Fund receives facilities development funding pursuant to the Burnaby and Lake City COSAs for eligible capital and operating expenditures.

Reimbursements of eligible capital and operating expenditures from the facility development fund ("FDF") are recorded as a reduction in the cost of the related assets or operating expenses, respectively, based on when the expenditures are incurred and the amount of funds accumulated in the related FDF account held in trust. If there are not sufficient funds available for reimbursement when the expenditures are incurred, the cost of the related asset or operating expense is not reduced until funds are available.

Financial instruments

The Fund is subject to interest rate risk on floating rate payments under its long-term debt. The Fund manages this exposure by entering into interest rate swap agreements. Payments and receipts under interest rate swaps are recognized as adjustments to interest expense in a manner that matches them to interest payments under floating rate financial liabilities.

Income taxes

Income taxes are not provided for in the Fund as the policy of the Fund and the Trust is to distribute all of their taxable income to unitholders on an annual basis.

4. Distributions to unitholders

During the year ended December 31, 2003 and the period from November 28, 2002 to December 31, 2002, the Fund declared distributions to the unitholders of $33,709,000 or $1.276 per unit and $2,906,000 or $0.11 per unit, respectively. The amounts and record dates of these distributions are as follows:

Year ended December 31, 2003

January 31	2,642	.10
February 28	2,642	.10
March 31	2,642	.10
April 30	2,642	.10
May 30	2,642	.10
June 30	2,642	.10
July 31	2,642	.10
August 29	2,642	.10
September 30	2,773	.105
October 31	2,773	.105
November 28	2,774	.105
December 31	4,253	.161
	33,709	1.276

Period from November 28, 2002 to December 31, 2002

December 31	2,906	.11
	2,906	.11

During December 2003, the Fund declared a distribution of $4,253,000 to unitholders of record on December 31, 2003, which was paid subsequent to year end and is reported as a current liability at December 31, 2003.

5. Trusts funds and liabilities

Cash floats

Under the terms of the COSAs, cash floats of $3,490,000 (2002 - $3,490,000) for the casinos located in British Columbia are provided by the BCLC. These funds are used in the operations of the Fund but are not reflected in these financial statements. The Fund has provided the BCLC with letters of credit totalling $3,490,000 as security for the cash floats provided.

Facility development fund

The COSAs provide that a facility development fee, equal to 3% of the total win from table games and slot machines at the casinos located in British Columbia, shall be deposited into an FDF account from which the casino may draw, as reimbursement for eligible capital and operating expenditures, subject to the approval of the BCLC.

The FDF funds are held in trust by the Fund and have not been reflected in these financial statements.

The COSAs require that separate FDF accounts be maintained for the Burnaby Casino and for the Lake City Casinos.

a) Burnaby Casino

The activity during the period and balance of cash held in trust for reimbursement of eligible expenditures are as follows:

Balance - beginning of period	381	78
Additions from gaming revenue	3,673	303
Funds released		
Capital	234	-
Operating	415	-
Balance - end of period	3,405	381

During year ended December 31, 2003, the Fund incurred eligible expenditures at the Burnaby Casino of $204,000 related to property and equipment additions (period from November 28, 2002 to December 31, 2002 - $38,000) and $490,000 related to operating costs (period from November 28, 2002 to December 31, 2002 - $46,000).

b) Lake City Casinos

The Lake City Casinos have incurred approved eligible expenditures in excess of FDF funds available for reimbursement. In accordance with generally accepted accounting principles, the amount receivable on account of reimbursement of the excess eligible expenditures is not recorded as an asset of the Fund in these financial statements. Reimbursements are made, and recognized in these financial statements, as FDF funds are accumulated.

The activity during the period and balance of unrecovered eligible expenditures are as follows:

	Year ended December 31, 2003			Period from November 28, 2002 to December 31, 2002
Balance – beginning of period	129	13,163	13,292	13,544
Eligible expenditures incurred	839	156	995	13
Reimbursement from FDF funds	(968)	(2,289)	(3,257)	(265)
Balance – end of period	-	11,030	11,030	13,292

The $11,030,000 of unrecovered eligible operating expenditures at December 31, 2003 relates to the approximate capital cost of leased casino premises. Recovery of these amounts is recorded as a reduction of occupancy costs when funds are received.

Progressive jackpot funds

Progressive jackpot funds are held in trust by the Fund and have not been reflected in these financial statements. The progressive jackpot liability represents the potential payout to progressive jackpot winners. Revenues in these financial statements are recorded net of amounts related to the progressive jackpot. The progressive jackpot funds held in trust by the Fund at December 31, 2003 are $903,000 (December 31, 2002 - $841,000).

6. Prepaid rent

During 2001, the Palace Casino was expanded and renovated at a total cost of approximately $12 million (including additions to furniture and equipment). As compensation for a portion of the costs of the renovation, the lease of the casino premises was amended to reflect a reimbursement through the reduction of casino rent. The casino building is leased for a 15-year term commencing September 2001 and rent payments include a fixed amount plus contingent rent based on revenues.

During the year ended December 31, 2003, the Fund completed negotiations with the landlord of the Palace Casino with respect to the amount of the rent reimbursement from the landlord related to the expansion and renovation of the casino premises. The existing lease was amended to reflect that the Fund is not required to pay rent payments exceeding a minimum guaranteed rent amount until a notional amount of $8.5 million plus interest at 8.5% is recovered by the Fund from the landlord, subject to the limitation that the recovery period shall not extend past March 1, 2013. This settlement represents an increase of the reimbursement amount by $3.5 million from $5 million as previously agreed, and an equivalent amount has been reclassified from property and equipment to prepaid rent. The Fund is amortizing the prepaid rent of $8.5 million to rent expense on a straight- line basis over the term of the lease.

The activity during the period and balance of prepaid rent are as follows:

Balance - beginning of period	4,555	4,586
Additions	3,500	-
Amortization	(686)	(31)
Balance - end of period	7,369	4,555
Current portion	804	333
Long-term portion	6,565	4,222
Balance - end of period	7,369	4,555

Reimbursable portion of rent is as follows:

Balance - beginning of period	8,604	8,616
Interest accumulated during the period	729	68
Reimbursement through reduction of casino rent during the period	(842)	(80)
Balance - end of period	8,491	8,604

The beginning balance at November 28, 2002 is the amount assumed on acquisition.

7. Property and equipment

	2003		
Land	50	-	50
Building	84	4	80
Furniture and other equipment	1,273	416	857
Computer equipment	266	127	139
Leasehold improvements	5,661	1,327	4,334
	7,334	1,874	5,460

	2002		
Land	50	-	50
Building	84	-	84
Furniture and other equipment	1,544	60	1,484
Computer equipment	146	6	140
Leasehold improvements	9,145	165	8,980
	10,969	231	10,738

The COSAs for the Burnaby Casino and the Lake City Casinos and the Casino Facility License for the Palace Casino provide that certain gaming equipment is the property of the BCLC and AGLC, respectively. Accordingly, any costs related to gaming equipment provided by and owned by the BCLC and AGLC have not been included in these financial statements.

Also see note 6.

8. Intangible assets

Cost	20,623	20,623
Accumulated amortization	(1,231)	(106)
Net	19,392	20,517

9. Secured loans

In connection with the acquisition of the casino operations on November 28, 2002, the Trust issued $227,180,000 of secured loans to the Vendors. The secured loans bear interest at 8.0% per annum, payable monthly in arrears, and are secured by the Class A Units held by the Vendors (representing 100% of the Class A Units outstanding at December 31, 2003), all distributions on account of such units, and all redemption proceeds of such units. The secured loans mature on November 28, 2032 and are payable in full at maturity. If and whenever any Vendor redeems Class A Units owned by the Vendor (note 12), the Vendor will pay the redemption amount as a repayment of the secured loan without penalty. In no event may a Vendor redeem any Class A Units without the consent of the Trust. The loan agreement also provides for the borrower to make optional prepayments, subject to certain conditions.

During the year ended December 31, 2003, the Fund earned interest on the secured loans of $18,174,000 (period from November 28, 2002 to December 31, 2002 - $1,692,000).

10. Loan due to related party

During the year ended December 31, 2003, GCI loaned $700,000 to the Partnership to finance renovations of the Kamloops Casino. The loan matures on April 30, 2006, is non-interest bearing and is repayable in monthly instalments equal to the incremental cash flow generated by the additional 25 slot machines installed in the casino plus the amount of the reimbursement received from the FDF pursuant to the incremental revenue. Repayments began on June 1, 2003 and the Partnership repaid $276,000 during the year ended December 31, 2003. Management estimates the full amount of the loan will be repaid within the next twelve months and, accordingly, the loan has been classified as a current liability.

11. Long-term debt

Promissory note	900	900
Revolving operating facility	21,100	22,700
	22,000	23,600

During the year ended December 31, 2003, the Partnership repaid $1,600,000 of the revolving operating facility. Subsequent to year end, the Partnership drew an additional $1,200,000 from the revolving operating facility in connection with the payment of the December 2003 distributions of the Fund.

Promissory note

The promissory note is unsecured and is payable in 120 equal monthly instalments of $7,500 plus interest at prime plus 1.5%, beginning January 1, 2005.

Revolving credit facilities

On November 28, 2002, the Fund established credit facilities with a Canadian chartered bank. The facilities have a three-year committed term, and can be extended for additional 364-day periods, provided that the extension cannot be later than February 28, 2008. In the event that the facilities are not extended, any amounts outstanding at the maturity date will convert to non-revolving facilities repayable over a three-year period. The facilities consist of:

Revolving operating facility	25,000	25,000
Revolving letter of credit facility	7,000	7,000

Advances under the operating facility can be made by way of Bankers' Acceptances ("BAs"), with terms of 30 to 180 days, cost of funds based advances, with terms up to five years, or prime rate based advances. Advances made by way of BAs are discounted based on the current market discount rates for BAs with similar terms. The Fund pays a stamping fee of 0.875% on the face value of any BAs issued. Cost of funds based advances bear interest at the cost of funds as determined by the bank at the time of advance, plus 0.875% per annum. Prime rate based advances bear interest at the bank's prime lending rate.

The Fund pays a fee of 0.875% per annum on the average outstanding balance of letters of credit written under the credit facilities.

The Fund pays the bank a stand-by fee of 0.020% per annum on the unutilized amount of the credit facilities.

The credit facilities are secured by general security agreements and guarantees of the Fund and certain of its subsidiaries.

As at December 31, 2003, the Fund had $21,100,000 (December 31, 2002 - $22,700,000) outstanding under the operating facility and $7,210,000 (December 31, 2002 - $4,870,000) in outstanding letters of credit. The excess of the outstanding letters of credit over the amount of the facility of $210,000 is being covered by the unused portion of the operating facility. The advances under the operating facility comprised $600,000 (December 31, 2002 - $1,200,000) of prime rate based advances bearing interest at 4.5% per annum (December 31, 2002 - 4.5%) and $20,500,000 (December 31, 2002 - $21,500,000) of cost of funds based advances bearing interest at 3.66% (December 31, 2002 - 3.71%) per annum.

The Fund has entered into an interest rate swap agreement, effectively converting the interest rate on $21,500,000 of the outstanding amount under the operating facility from floating rate to fixed rate. After allowing for the effect of the interest rate swap, the effective interest rate on the facility for the year ended December 31, 2003 was 6.35% (period from November 28, 2002 to December 31, 2002 - 6.39%).

12. Class A Partnership Units

In connection with the acquisition of casino operations on November 28, 2002 (note 1), the Partnership issued Class A Units with a stated capital of $227,180,000 to the Vendors.

The Class A Units entitle the holder thereof to:

a) a preferential, non-cumulative allocation of accrued income and distributable cash over all other partnership interests in the Partnership, equal to 8.01% per annum of the capital attributed to Class A Units;

b) a preference over all other interests in the Partnership, on distributions of capital and accrued income in the event of a liquidation, dissolution or winding-up or other distribution of the assets of the Partnership for the purpose of winding up its affairs, after payment of or other proper division of all of the liabilities of the Partnership, to a maximum of the capital attributed to the Class A Units, together with accrued income;

c) redeem Class A Units from time to time at the redemption price equal to the capital attributed to the Class A Units plus any accrued but unpaid income to the date of redemption. In no event may a holder redeem any Class A Units without the consent of the Trust; and

d) vote on amendments to the Limited Partnership Agreement which add, change or remove the rights, privileges, restrictions or conditions attached to the Class A Units or create a new class of units equal or superior to the Class A Units or as required by law, but in all other circumstances, the Class A Units will be non-voting.

The Class A Units, as well as all distributions and redemptions of the units, have been pledged as security for the secured loans (note 9).

The Class A Units have the attributes of a liability and have been reflected as such in these consolidated financial statements.

During the year ended December 31, 2003, the Partnership allocated income of $18,197,000 (period from November 28, 2002 to December 31, 2002 - $1,695,000) to the Class A Units.

13. Trust units

The Declaration of Trust authorizes the Fund to issue an unlimited number of units in one class. Each unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund and in any net assets of the Fund in the event of termination or winding-up of the Fund.

Units are redeemable at any time at the option of the holder at amounts related to market prices of the units at the time. In the case of unitholders who hold units entitling them to more than 10% of the votes that may be cast to appoint Fund Trustees (a "Significant Interest") and who receive prior approval from the BCLC and AGLC, or unitholders who do not hold a Significant Interest, the redemption price will be paid in cash, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month (provided that the Fund's Trustees may at their sole discretion waive the $50,000 limitation. Where unitholders are not entitled to cash redemptions, the redemption price will be paid and satisfied by way of an in specie distribution of securities or assets held by the Fund, subject to any applicable regulatory approvals.

On November 28, 2002, the Fund issued 10,567,000 units at a price of $10.00 per unit pursuant to its initial public offering, together with a concurrent issue of 15,850,687 units to the shareholders of GCI at a price of $10.00 per unit pursuant to a private placement. Expenses of the offering amounted to $9,451,000 and were charged against unitholders' equity.

		(note 1)
Units issued on November 28, 2002		
Initial public offering	10,567,000	105,670
Private placement	15,850,687	158,507
Expenses of offering		(9,451)
	26,417,687	254,726
Reduction to reflect excess of consideration paid over Historical Book Values (note 1)		(231,733)
Balance as at December 31, 2003 and 2002	26,417,687	22,993

Due to the related party nature of the acquisition of the assets of the Burnaby Casino, Lake City Casinos and the Palace Casino, the value of unitholders' equity has been reduced by the excess of the consideration paid over the Historical Book Values (note 1).

14. Long-term incentive plan

The Fund has adopted a long-term incentive plan (the "Plan") to provide full-time employees, officers and trustees/directors of the Fund with compensation opportunities that will enhance the ability of the Fund to attract, retain and motivate key personnel and reward officers and employees for significant performance and cash growth. Bonuses, in form of units of the Fund, will be provided to eligible participants on an annual basis where the distributable cash (note 4) of the Fund exceeds specified threshold amounts.

If distributable cash per unit exceeds the threshold amounts, a percentage of the distributable cash (the "Participation Rate") is contributed by the Fund into a long-term incentive pool. The funds in the pool are used to purchase units of the Fund in the open market, to be provided to eligible employees as bonus compensation. Threshold amounts and participation rates are as follows:

Greater than $1.20 per unit, but less than $1.25	10%
Greater than or equal to $1.25, but less than $1.30	15%
Greater than or equal to $1.30	20%

The Plan, including the designation of eligible employees and allocation of the long-term incentive pool, is administered by the Compensation and Corporate Governance Committee of the Fund. Based on the terms of the Plan, $960,000 has been accrued at December 31, 2003 (2002 - nil) for award to eligible participants subject to applicable vesting requirements. This amount has been recorded as deferred employee compensation and will be expensed over the three-year vesting period from the date of grant.

15. Related party transactions and amounts

As at December 31, 2003, the Fund had a net amount receivable from GCI and the Vendors of $100,000 (at December 31, 2002 a net payable of $8,096,000), comprising the following:

Income allocations on Class A Units (note 12)	(1,546)	(1,695)
Net operating costs (a)	(101)	(3,287)
Interest receivable on the secured loans (note 9)	1,544	1,692
ATM fee (b)	-	47
Administration fee (c)	203	104
Issue costs paid by GCI on the Fund's behalf (d)	-	(2,624)
Post closing working capital adjustment (note 1)	-	(2,333)
Net amount receivable (payable)	100	(8,096)

a) The Partnership and GCI and the Vendors incurred costs on behalf of each other in the normal course of business. During the year ended December 31, 2003, the net of total costs incurred were $115,000 incurred by GCI and the Vendors on the Partnership's behalf (period from November 28, 2002 to December 31, 2002 - $4,246,000).

The net balance due to related parties as at December 31, 2003 includes $101,000 (2002 - $3,287,000) of operating costs incurred by related parties on the Partnership's behalf.

b) In connection with the acquisition on November 28, 2002, the Partnership entered into a contract with a subsidiary of GCI for Automated Teller Machine ("ATM") services at the Burnaby Casino. The Partnership receives a flat fee of $500,000 per annum, payable in equal monthly instalments. During the year ended December 31, 2003, the Partnership earned a fee of $500,000, which is included in other revenue (period from November 28, 2002 to December 31, 2002 - $47,000).

Effective November 5, 2003, the Partnership entered into a contract with a subsidiary of GCI for ATM services at the Palace Casino. The Partnership receives a fee per ATM transaction equal to the fee per ATM transaction received by the subsidiary of GCI.

During the year ended December 31, 2003, the Partnership earned a fee of $19,000, which is included in other revenue.

c) The Fund provides management and administrative services to GCI, a company owned by unitholders holding 60% of the outstanding units of the Fund as at December 31, 2003. Pursuant to the terms of the management agreement, the Fund charges a fee to GCI equivalent to GCI's proportionate share of management and administrative expenses. The proportionate share is determined annually based upon a combination of factors including revenue, with consideration given to time spent by senior executives of the Fund on GCI matters relating to sourcing and developing opportunities in the gaming industry. The Fund charged a fee of $1,417,000 to GCI for the year ended December 31, 2003 (period from November 28, 2002 to December 31, 2002 - $104,000), which is recorded as a reduction of administration expenses.

d) Certain costs of the Fund's initial public offering, totalling $2,624,000, were incurred on the Fund's behalf by GCI. The Fund agreed to reimburse GCI for these amounts and they were repaid during the year ended December 31, 2003.

Also see notes 1, 9, 10, 12, 13 and 19.

16. Financial instruments

Fair value of financial instruments

The fair value of cash and cash equivalents, accounts receivable, FDF receivable, due from related parties, gaming revenue payable to BCLC and AGLC, accounts payable and accrued liabilities, due to related parties, loan due to related party, and distributions payable to unitholders approximate their carrying value due to the relatively short-term nature of these instruments. The fair value of the Fund's long-term debt approximates its carrying value as it bears interest at a floating rate.

The fair value of the secured loans and the Class A Units is not practicable to determine given the many factors, terms and conditions that would influence such a determination. Any distributions on or redemptions of the Class A Units are, pursuant to the terms of the secured loans, offset by interest received or repayments of the secured loans. Therefore, the financial exposures of the two instruments are offset accordingly.

Interest rate swap

The Fund enters into interest rate swap contracts with approved creditworthy counterparties to manage the Fund's exposure to interest rate risk. The Fund does not hold or issue derivative financial instruments for trading or speculative purposes. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the consolidated balance sheet.

As at December 31, 2003, the Fund had one interest rate swap contract outstanding, as follows:

Interest rate swap contract	21,500	June 14, 2007	(1,150)

The fair value of the interest rate swap reflects the estimated amount the Fund would have to pay if it were to unwind the contract at the reporting date.

17. Commitments

Operating lease commitments

The Fund leases certain office equipment and premises for office space as well as its casino locations. At December 31, 2003, future minimum operating lease payments were as follows:

Year ending December 31	
2004	3,408
2005	3,424
2006	3,465
2007	3,444
2008	2,772
2009 and beyond	12,557
	29,070

The above table includes only the minimum guaranteed rent payments in respect of the Palace Casino (note 6).

18. Segmented information

The Fund has three reporting segments: the Burnaby Casino, the Lake City Casinos and the Palace Casino. The accounting policies for the segments are as described in note 3. All business of the Fund is conducted in Canada.

	[illegible]	[illegible]
Revenue		
Burnaby Casino	37,751	3,211
Lake City Casinos	29,163	2,428
Palace Casino	19,601	1,875
	86,515	7,514
Earnings before corporate and general administration, loss on sale of assets, interest, income allocation on Class A Units and amortization		
Burnaby Casino	24,421	2,021
Lake City Casinos	12,514	701
Palace Casino	6,256	756
	43,191	3,478
Corporate and general administration	(4,296)	(354)
Earnings before the following	38,895	3,124
Amortization		
Burnaby Casino	(78)	(4)
Lake City Casinos	(2,247)	(201)
Palace Casino	(1,206)	(163)
	(3,531)	(368)
Loss on sale of assets	(124)	-
Interest income on secured loans	18,174	1,692
Income allocation on Class A Units	(18,197)	(1,695)
Interest expense, net	(1,226)	(131)
	(4,904)	(502)
Net earnings	33,991	2,622
Property and equipment additions (1)		
Burnaby Casino	374	39
Lake City Casinos	865	1
Palace Casino	116	12
	1,355	52

(1) Excluding recoveries from the FDF.

Segment assets

	[illegible]	[illegible]	[illegible]	2003 Total	2002 Total
Property and equipment	196	2,749	2,515	5,460	10,738
Goodwill	-	9,526	261	9,787	9,787
Intangible assets	-	19,392	-	19,392	20,517
Total segment assets	3,136	35,564	16,300	55,000	64,147
Other unallocated assets				230,529	228,625
Total assets				285,529	292,772

19. Subsequent events

Subsequent to December 31, 2003, the Fund entered into an underwriting agreement with a syndicate of underwriters in connection with a secondary offering of 4,000,000 units of the Fund owned by the shareholders of GCI. This transaction closed on February 10, 2004. The Fund did not receive any of the proceeds from the offering.

Upon completion of this transaction, the selling unitholders paid $40 million to the Vendors as partial repayment of certain loans outstanding between the Vendors and the selling unitholders. In accordance with the terms of the secured loans, the Vendors were required to repay the $40 million to the Trust as a partial repayment of the secured loans. The Trust used the proceeds from the repayment of the secured loans to subscribe for additional Class B Units of the Partnership and the Partnership used the proceeds from the issue of Class B Units to redeem $40 million of Class A Units held by the Vendors. The net impact on the consolidated balance sheet of the Fund in 2004 will be a decrease of $40 million in Class A Units and a corresponding reduction in the amount of the secured loans.

Management of the Partnership

Raymond A. McLean

Ray McLean is responsible for overseeing all of the Partnership's strategic decisions and devotes the majority of his time to Gateway G.P. He has many years of professional and general management business experience, including the building and development of successful industrial and resource corporations. Ray is currently President and Chief Executive Officer of Trian Equities Ltd. a diversified venture capital company. In addition to acting as a Provincial Court Judge in British Columbia for 17 years, Ray was one of the early shareholders and a director of QLT Inc., one of Canada's most successful biotech companies.

Dave Gadhia

Dave Gadhia, a Chartered Accountant, is responsible for all of the Partnership's operations. He has been with GCI since its inception in 1992, and oversaw the relocation of the Burnaby Casino, and the acquisition of the Palace Casino, the Lake City Casinos, and the Baccarat Casino in Edmonton. He is active in the affairs of the Casino Management Council of British Columbia.

Bradley D. Bardua

Bradley Bardua, a Chartered Accountant, is responsible for all financial and accounting matters relating to the Partnership. He has extensive experience in the financial management of publicly traded companies. Prior to joining GCI, Bradley held senior financial positions with Leisure Canada Inc., Petrolex Energy Corporation and Hospitality Careers Online Inc., an online recruitment business for the hospitality industry.

Stephen B. Kumpf

Stephen Kumpf oversees the operations of Gateway's Okanagan Division. He was employed by Lake City Gaming from 1993 to 1997 as Manager, Finance and Administration, before being named President in January 1998. He continued in that role until Gateway Casinos Inc. acquired the company in 2002. Prior to joining Lake City Gaming, Stephen worked for several years as a Senior Account Manager, Commercial Lending for the Toronto Dominion Bank. He is active in the Casino Management Council of BC and belongs to the Kelowna, BC chapter of the Executive Round Table.

Daniel E. McLean

Daniel McLean is responsible for the day-to-day management of the Partnership's facilities and equipment. He was responsible for the construction of the Burnaby Casino, and the renovation and expansion of the Palace Casino. Daniel has owned and operated a range of retail establishments and oversees the operations of various other business enterprises owned by his family.

Monique A. Wilberg

Monique Wilberg, a founding shareholder of Gateway Casinos Inc., is responsible for the day-to-day gaming operations at the Burnaby Casino. She has more than 15 years of gaming industry experience and began her career at GCI as Human Resources Manager. Prior to that, Monique was the Human Resources Manager of Great Canadian Casinos of Vancouver, BC. Monique has been instrumental in developing Gateway's systems for information management within surveillance and systems for human resources management, specifically training and development. These systems are unique to our industry in Canada.

Howard M. Worrell

Howard Worrell is responsible for the day-to-day operations of Gateway's Alberta operations. He played a key role in the creation of the Palace Casino in 1989, and its subsequent relocation in 1990, and has served as its Chief Operating Officer since then. Prior to GCI's acquisition of the Palace Casino, Howard was involved in the design and development of The Satellite Bingo Network (TSBN), a live satellite broadcast of bingo games in Alberta and Washington state. He is active in the affairs of the Alberta Gaming Industry Association.

Trustees and Directors

Board of Trustees,

Gateway Casinos Income Fund

Raymond A. McLean, Chairman (2)

Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia

President of Gateway G.P. Inc.

Albert Gnat (1)(2)

Partner, Lang Michener

Albert Gnat has served major private and public corporations as a senior legal advisor for more than 25 years. He has been a partner at Lang Michener since 1974, and has built a broad-based corporate and commercial practice encompassing securities, mergers and acquisitions, and finance transactions, largely in the communications and technology sectors. Over the course of his career, Albert has developed senior level contacts throughout North America, Europe and the Far and Middle East. Albert currently holds a number of Board positions, including IKEA Limited and Rogers Communications Inc.

Anthony F. Griffiths (1)(2)

Independent consultant and corporate director

Anthony Griffiths has been an independent business consultant since 1994. Prior to that, he held the positions of President, CEO and Chairman of Mitel Corporation, a leading global provider of enterprise and small business communications solutions and services. Currently, Anthony is the Chairman of Slater Steel Inc. and Russel Metals Inc., as well as a director of various other corporations.

Dr. James J. Miller

Chairman and CEO, Neuro Discovery Inc.

Jim Miller is Chairman, President and CEO of Neuro Discovery Inc., a publicly traded investment management/venture capital company. He is also a director of a number of private and public companies including Inex Pharmaceuticals Corp., NeuroMed Technologies Inc. and Targeted Molecules Corp. A co-founder of Inex Pharmaceuticals Corp., Jim was the President and CEO of that company from 1992 until 1999, and Chairman of the Board until February 2001. Prior to that, from 1985 to 1991, Dr. Miller was Chairman, President and Chief Executive Officer of QLT Inc., which he co-founded in 1981.

B. Jeffrey Parr (1)

Director, Co-Chief Executive Officer and Managing Director, Clairvest Group Inc.

Jeffrey Parr, a Chartered Accountant, is Co-CEO and Managing Director of Clairvest Group Inc., a publicly traded merchant bank that provides equity capital to established businesses with the potential to produce superior returns. He has been active as a senior executive in the financial services industry since 1985. Jeffrey also serves as an active director of several companies, including Consolidated Vendors Corporation, Signature Security Group, and Datamark Group Inc., a Canadian market leader in the business document industry.

Ross J. Tocher

President, Knight Ventures Ltd.

Ross Tocher is an independent businessman whose primary focus is overseeing investments and investment strategies for various family holding companies. He is also a director of a number of private companies. Ross co-founded BrewKing Ltd., a manufacturer of commercial and consumer concentrates for wine production that achieved worldwide sales. BrewKing was sold to Andres Wines Ltd. in 1997.

(1) Member of Audit Committee **(2)** Member of Compensation and Corporate Governance Committee

Board of Directors, Gateway Casinos G.P. Inc.

Raymond A. McLean, Chairman
Chief Executive Officer, Gateway Casinos G.P. Inc.

Dave Gadhia
President of Gateway G.P. Inc.

Albert Gnat
Partner, Lang Michener

Anthony F. Griffiths
Independent consultant and corporate director

Dr. James J. Miller
Chairman and CEO, Neuro Discovery Inc.

B. Jeffrey Parr
Director, Co-Chief Executive Officer and Managing Director, Clairvest Group Inc.

Ross J. Tocher
President, Knight Ventures Ltd.

Corporate Information

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Casinos

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4320 Dominion St.
Burnaby, B.C.
V5G 4M7
Tel: 604.436.2211

Palace Casino

8882 170th St. NW
Edmonton, AB
T5T 4J2
Tel: 780.444.2112

Lake City Casinos – Kelowna

1300 Water St.
Kelowna, B.C.
V1Y 1P6
Tel: 250.860.9467

Lake City Casinos – Kamloops

540 Victoria St.
Kamloops, B.C.
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Tel: 250.372.3336

Lake City Casinos – Penticton

21 Lakeshore Drive West
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Tel: 250.487.1280

Lake City Casinos – Vernon

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Tel: 250.545.3505

Registrar and Transfer Agent

Computershare Trust Company of Canada

Auditors

PricewaterhouseCoopers LLP

Market Information

Units Listed: Toronto Stock Exchange
Symbol: GCI.UN

Investor Enquiries

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Chief Financial Officer

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The Annual General Meeting of The Gateway Casinos Income Fund will be held on Thursday, May 20, 2004, 1:30pm at The Terminal City Club 837 West Hastings St. Vancouver, B.C.

GATEWAY CASINOS